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SUBJECT: SERBIA: BELGRADE'S ECONOMIC AGENDA

#### SUMMARY

1. Belgrade is Serbia's economic center, accounting for over 30% of the country's GDP and workforce. Among the international and domestic companies headquartered in the capital are Belgrade's public utility companies which are divvied up along party lines. The city government is a coalition of pro-European parties, which, with exception of also including the Liberal Democratic Party, mirrors that of the national government. Although there is not complete harmony within the coalition, members agree that Belgrade's public utility companies and utility subsidies need to be reformed and investment in infrastructure and public transportation are imperative. Amid the financial crisis, however, significantly reducing subsidies could lead to public criticism. Serbia will try to secure financing for large infrastructure projects from international organizations, but many projects may be postponed until an end to the economic crisis is in sight. End Summary.

#### Belgrade, Serbia's Economic Powerhouse

2. Belgrade is the economic heart of Serbia. Over 30% of the country's GDP is generated in the capital and over 30% of the nation's workforce is employed here. The city's 2008 budget was 2.9% higher than in 2007, while the 2009 budget (about \$958 million) is 7.7% higher than 2008 driven by expenditures for the upcoming Student Olympic Games in July 2009 and the city's newly acquired authority and financial responsibility for roads, rivers and railways running through Belgrade as mandated by a law passed in 2008. The majority (58%) of Belgrade's revenue comes from the federal government, of which, 63% comes from federally collected income taxes. Of the 42% of revenue generated by the city, 68% is for payments to the city for the use and maintenance of land and 10% is from property taxes.

#### Belgrade's Utility Companies Divvied Up

3. Belgrade's public sector is dominated by public utility companies. Like at the national level, management of these companies is divvied up along ruling coalition party lines. Belgrade's city coalition mirrors that of the federal government (Democratic Party (DS), G17 Plus, Liberal Democratic Party (LDP), Socialist Party (SPS), and Pensioners Party (PUPS)) with the exception of LDP's inclusion. Of the 11 utility companies, DS runs water and sewage, parks, sanitation, and parking services. G17+ manages city housing and open air markets, while SPS manages district heating plants and public transportation. LDP appointed managers to run road maintenance services and the bill collecting agency and PUPS manages Belgrade's funeral services. In a conversation with us on December 19, Head of LDP Caucus for Belgrade Dejan Randic said utility companies were largely inefficient and unprofitable and that the city gave money to the companies without receiving or requiring accountability for expenses.

#### Infrastructure, Traffic Top Priorities

¶4. DS, LDP and SPS all agree that Belgrade must tackle traffic congestion and reduce utility subsidies. On December 24, Vice President of Belgrade City Assembly Zoran Alimpic (DS) told us that there were 600,000 cars in the city in 2008, up significantly from 200,000 in 2000. Unfortunately for commuters, very few infrastructure changes have been made since 2001 to alleviate the increased traffic. City Assembly Member and former SPS Belgrade Board Chairman Aleksandar Antic told us on December 11 that Belgrade's traffic problem could be solved with the completion of the ring road, more public buses, and the expansion of the existing railroad. Ring road construction has been an ongoing project for the last 20 years with only segments yet completed. One of several purposes of the road would be to divert large trucks and commercial vehicle traffic from the city center. Serbia has yet to secure funding to finish the project, however, the European Bank for Reconstruction and Development announced its intention to provide Serbia with infrastructure loans.

¶5. The city government sees expanding Belgrade's railway systems as a long-term solution to its traffic problem. According to Alimpic, funds were allocated in the 2009 city budget for a railway expansion that would be operational in 2010. In the short-term, the city is considering increasing the number of public buses in an effort to encourage more Belgraders to use public transportation. Alimpic estimated that 50% to 60% of Belgraders already use public transportation.

¶6. According to Alimpic, to fund proposed infrastructure projects, the city would need to cut administrative costs and subsidies, rationalize public company costs, and increase public utility prices by 20% to 30%.  
Social Welfare Only for the Needy  
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¶7. All three parties also agree that subsidies should be lowered, but not for all city dwellers. Currently, all Belgraders enjoy subsidized low prices for public services from electricity to bus tickets. Alimpic estimated that 40% of the city's budget goes to public subsidies and discounts. Instead of extending these benefits to all, the city proposes giving them only to the poor and low income wage earners. Antic said he supported a phasing out of subsidies for the more well-off over time and implementing a sliding payment scale for others as is done with state-subsidized child care. Even though the parties are on board with lowering subsidies, the negative public opinion of making such an unpopular has given them pause.

Politics  
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¶8. Although the city coalition government appears stable, it is far from harmonious. Alimpic explained that the "constant struggle" over every issue discussed slowed the implementation of projects. Randic was more positive, but still honest saying that communication in the coalition was good, but that there still remained deep-seeded political rivalry among parties. Antic portrayed SPS as selfless, claiming that his party at times "worked against its own interest for the good of all and political stability."

COMMENT  
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¶9. The city government acknowledges that tough reforms like increasing utility prices and productivity in ailing public companies are necessary, especially since the central government cannot bail them out. However, amid a global financial crisis, tough reforms will be unpopular and unlikely to occur. As on the national level, Belgrade's large scale plans will likely have to wait out the crisis. End Comment.

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